SOUTH OCEAN 南海管理有限公司
MANAGEMENT, LTD.
HONG KONG

December 12, 2020

Dear Clients, Partners, and Friends,

The results for South Ocean Management's Delaware LP, Hong Kong Partners' L.P., before incentive fees, were as follows:

	Nov. 2020	Year-to-date
Hong Kong Partners LP*	8.4%	-11.2%
Hang Seng Index	7.6%	-6.6%
Hang Seng Small Cap Index	10.1%	11.9%
MSCI HK Small Cap Index	10.9%	7.1%
HS Mid Cap Index	9.7%	13.2%

Partners' NAV $2.2987 after management fee and provisions, but before annual incentive fees of 15% on appreciation. The benchmark indexes cited above are not total return results whereby Hong Kong Partners LP's return is inclusive and net of income and fees. Three of these benchmark indexes are provided by HSI Services in Hong Kong and more information can be found at its website: https://www.hsi.com.hk/eng. More info on the MSCI Index may be found here: https://www.msci.com/documents/10199/73920289-8584-47fb-af65-7f57845bfb38

South Ocean's portfolios gained strongly in November. Our holdings of small/mid cap, Hong Kong-listed stocks surged along with global stock markets on the news of the Covid-19 vaccines. In Hong Kong, a positive sign was also the participation in the market's rally which expanded to lagging areas in retail, material and industrial sectors.

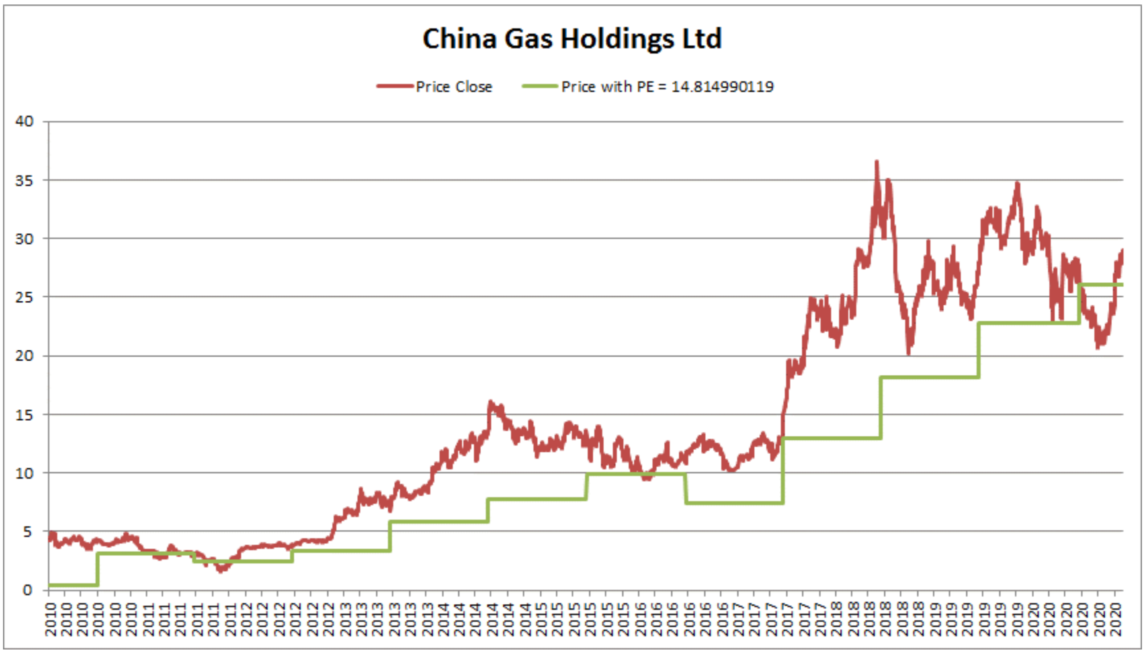
As we highlighted in October's client letter, China has witnessed an acceleration in its economic recovery, far ahead of other major economies. China's October purchasing managers index (PMI) registered the highest level since November 2010. Industrial profits rose 28.2% year-over-year in October, the biggest monthly growth in three years.

Our portfolios of undervalued, fundamentally strong companies, with earnings profiting from operations in China, are beneficiaries of this growth. The rising Chinese Yuan is also a tailwind to earnings reported in Hong Kong dollars. (As an aside, China reportedly has produced 600 million Covid-19 vaccine doses 'ready for use this year' whereas Pfizer has just announced it may have 50 million vaccine doses available, down from 100 million expected).

Our in-house intrinsic value screening program evaluates all listed stocks as to their fundamental attractiveness. For example, the software highlighted the shares of coal-to-city-gas converter, China Gas Holdings (code 384HK, market cap: HK$ 145 billion, US$ 18.7 billion) at a trough valuation where we initiated purchases in the low $20/share range (see chart below). The shares were selling at an 11 times price-to-earnings multiple (PE) on estimated 2020 earnings (versus an annual median PE of 17x over the past five years).

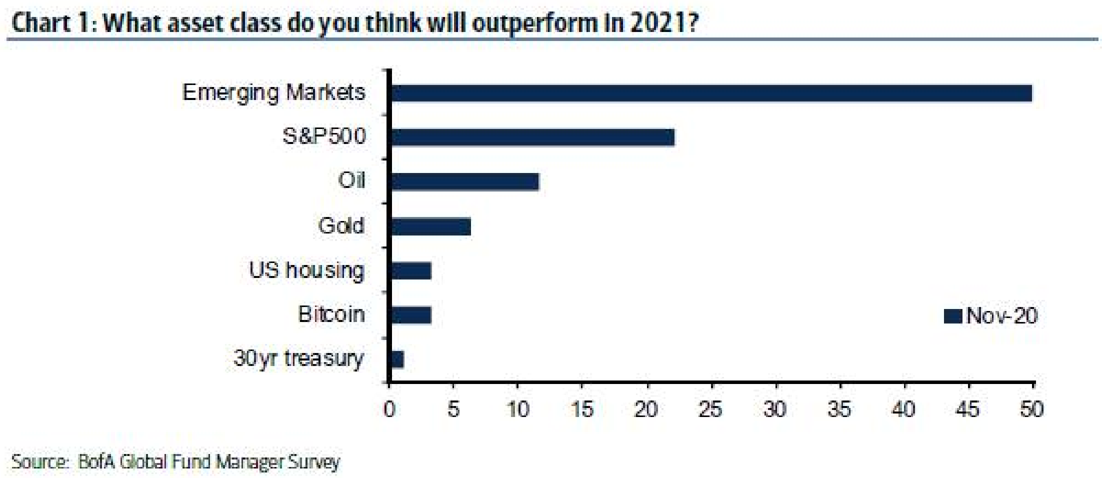
On further analysis, the company's five-year 22% compound annual earnings (EBIT) growth, 23.2% (trailing twelve months) return on equity and 17.2% return on capital employed are attractive fundamental metrics. The company recently reported a higher net amount of cash and cash-equivalents being earned by the business (operating cashflow) along with a lower projected capital expenditure budget which, in turn, is significantly increasing the company's free cashflow (by 30% this year and next). Insiders have been buying and the company is optimistic on its new micro LPG pipeline business.

Evaluating China Gas's shares using its five-year low annual PE of 14.8 multiplied by earnings per share, our system identified the share price as being undervalued, selling below its (green) earnings line in the month of October:



The chart displays the company's progressive earnings over 10 years and how the stock price squares with a reasonable (lowest annual multiple) valuation level. Our system helps us focus on attractive risk/gain opportunities in the Hong Kong share market.

Regarding prospects for Hong Kong equities next year, Bank of America/Merrill Lynch's widely followed Global Fund Manager Survey was decidedly bullish on the prospects of Emerging Markets:



Our stocks are significantly undervalued and have outstanding business prospects. The China markets are at an inflection point and we are glad to be investing our own capital along with our close friends and clients at South Ocean.

The article below had some keen insights on Hong Kong and China (Q&A with Gavekal's CEO).

We are sending our best wishes for a healthy and peaceful holiday season.

Sincerely,

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*Hong Kong Partners LP risk disclaimer:

- Hong Kong Partners LP (The "Fund") primarily invests in the Hong Kong equity market with a Greater China focus.
- The Fund invests in China-related companies which involve certain risks not typically associated with investment in more developed markets, such as greater political, tax, economic, foreign exchange, liquidity and regulatory risks.
- The Fund is also subject to concentration risk due to its concentration in Hong Kong, particularly China-related companies. The value of the Fund can be extremely volatile and could go down substantially within a short period of time. It is possible that a substantial value of your investment could be lost.
- You should not make investment decision on the basis of this material alone. Please read the explanatory private placement memorandum for details and risk factors.

The Renminbi Will Gain Wider Use Globally, Gavekal's CEO Says

By
Reshma Kapadia
Updated Dec. 5, 2020 11:17 am ET / Original Dec. 4, 2020 9:16 pm ET
BARRON'S NEWSLETTERS

The Barron's Daily

Louis-Vincent Gave

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Chief Executive, Gavekal
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Louis-Vincent Gave, CEO of Gavekal, is a go-to source for institutional investors trying to interpret global macro risks such as the financial implications of China's rise. Gave, 46, was born in Paris, educated at Duke University, and based in Hong Kong before the pandemic. Gavekal provides independent research and manages $1.7 billion in Asian fixed-income and equities strategies, primarily for European institutions.

Barron's**: What investment trends will be most prominent after the pandemic?**
Louis-Vincent Gave: If I ask what the most important development was in 2001, most people would say it was 9/11. With the benefit of hindsight, it was China joining the World Trade Organization, which changed the world for the following 20 years. If I ask about 2007, you'd say it was the start of the subprime crisis. With the benefit of hindsight, it was the launch of the smartphone.
With hindsight, what will people say about 2020?

So far, the Covid response in the U.S. has been a $12,800 increase in debt per capita; in the United Kingdom, it's $7,000, and in Germany and France, $5,300. In China, it's $1,200. The Western world responded with massive increases in budget deficits, which could constrain future policy options, while Asia, especially China, hasn't.

Western policy makers have no choice but to embrace yield-curve controls; they can't let interest rates go back up. You had Japan and Europe in the yield-curve control gang. The big change now is that the U.S. has joined them. Once the European Central Bank went down this [path], the euro tanked. Once we are on the other side of Covid-19 and it becomes clear the U.S. has no other choice, the dollar will collapse.

What will be the best investment opportunity post-Covid?
Investing in Asian fixed-income markets, in local currencies. Governments there have broadly been more efficient at dealing with Covid-19. Central-bank balance sheets and government spending haven't grown out of control. Just as water flows downhill, capital is attracted to positive real [inflation adjusted] rates. Today, these are mostly found in Asia.

What is the most pressing public policy issue the U.S. will face?
How to fund runaway debt. For now, everyone's answer is through modern monetary theory [which posits that governments that control their own currency can spend freely]. Once the debt is monetized by the central bank, there are no historical examples, outside of Japan, where that doesn't lead to massive and very fast inflation, massive currency debasement, or both.

What does that mean for the dollar's reserve-currency status?
I look at currencies like computer operating systems. Most Gavekal clients use Microsoft because everyone else uses it. The dollar is Microsoft. Go back to 2005-06, when Apple was trading at nine times earnings and viewed as making a niche product. In 2007, Apple said it would create a parallel system and went straight to the consumer, who took [Apple] not because it was cheaper but because it was easier.

So the renminbi is Apple.
We are seeing the rollout of Chinese fintech solutions across Southeast Asia, the Middle East, and Africa through WePay and Alipay. Then, tack on the digital renminbi and look forward to a future where an Indonesian businessman goes to Singapore and pays for his taxi with Alipay and the transaction isn't settled through Swift or the dollar but through digital renminbi. The pushback I get is that no one is going to trust the digital RMB—or, who wants the Chinese government to know how and where you spend your money? That's a big roadblock, but if you told me 10 years ago people would put Alexa in their homes voluntarily….

Aren't you worried about China's debt or social instability?

For the past 10 years, I've been told that Chinese debt was about to implode and there would be riots in the street. In the past 10 years, we have seen riots in France and the U.S—and in Hong Kong—but China has been remarkably stable. We have been told that the Chinese government would have no choice but to nationalize big parts of the economy and the renminbi would collapse. That scenario has unfolded in Europe and the U.S. [The U.S.] has increased debt by $4.2 trillion, three-quarters of which was funded by the Fed. Meanwhile, the renminbi has been the strongest currency year to date and over 10 years.

What is a key concern for Asia-based investors?
The decoupling of the U.S. and China is a massive change, and Taiwan is an important fault line. Taiwan wasn't too much of an issue when the U.S. and China got along and all China produced were cheap plastic toys and bicycles. But this year, the market cap of the global semiconductor industry is above that of the energy sector. Taiwan Semiconductor Manufacturing [ticker: TSM] said it is already manufacturing a generation of chips that Intel [INTC] has said it won't be able to fabricate until as late as 2023. If you think semiconductors matter more than energy, Taiwan Semi is one of the most important companies in the world.
What are the longer-term ramifications of President Xi's crackdown in Hong Kong?
The core thesis is that Xi is a transformational president—the first imperialist president since the Ming Dynasty. If you are Xi and you hear your companies won't have access [to U.S. markets], Hong Kong sounds like a great way to internationalize the renminbi and do a digital renminbi. Most Westerners saw the intervention as the death of Hong Kong, but China guaranteed Hong Kong would be China's capital markets for the foreseeable future. [Xi] has no choice but to make it a success, which is why the Hong Kong dollar is stuck at the high end of its [trading] band.

Chinese internet stocks have been hit by increased regulatory scrutiny, including the scuttling of the oversubscribed planned public offering of Ant Group. Does this mark a turning point for these companies?
Since the [suspension] of the Ant IPO and new antitrust [guidelines], we also had a state-owned coal company default on one billion renminbi, or $150 million. One big issue for China has been a trade surplus of $60 billion and enormous inflows into China tech and bonds driving the renminbi higher.

In the Western world, we would raise rates [to deal with potential bubbles]. In China, they have regulatory weapons. They managed to cool the tech stocks in China and inflows into Chinese bonds. They got their message through.

You have been living in Vancouver during the pandemic. What is the one place on Earth that you'd most like to visit when the pandemic ends?
I have to get back to my Hong Kong and Beijing offices. I miss my colleagues and my friends there.

Thank you.